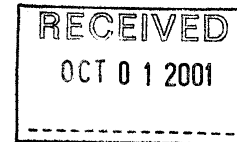




COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Joseph G. Kehoe *Richard J. Morgante*
Commissioner, Small Business/Self Employed

TO: Draft Letter Report – Most Taxpayers Are Advised of
Their Rights Before Signing an Agreement to Extend the
Assessment Statute of Limitations (200110004)

Thank you for the opportunity to review and comment on your recent draft report titled, "Information Provided to Taxpayers When Requesting Extensions of the Assessment Statute of Limitations Can Be Improved."

In this report, you reviewed our compliance with the statute extension provisions of RRA 98 Section 3461 (b) for a second time. We are pleased your audit found examiners properly advised taxpayers of their rights to refuse or restrict the scope of the statute extension in most cases.

In 11 cases, you could not determine from the case files whether the examiners advised taxpayers of their rights. Included in these 11 cases were two cases involving statute extension requests made prior to the enactment of the RRA 98 provisions and eight additional cases where the Appeals office made extension requests. If we did not notify taxpayers of their rights, or the circumstances surrounding the case do not show the taxpayers were aware of their rights, extensions granted by taxpayers may not be valid.

To facilitate compliance with the applicable section of RRA 98, we:

- Provided training to all examiners
- Revised Letter 907 (Request to Extend Statute)
- Provided all technical employees job aid, "Ensuring the Protection of Taxpayers' Rights: Responsibilities of Examination Employee"
- Issued reminders to employees through E-mail and memorandums
- Revised Publication 1035 (Extending the Tax Assessment Period)
- Released a new manual (IRM 121.2, Statute of Limitations), which requires employees to provide the taxpayer with a copy of L-907 and Publication 1035 and to document this distribution on the activity record

Our comments on the recommendations in this report are:

IDENTITY OF RECOMMENDATION 1: The Commissioners for each of the business units (Large and Mid-size Business, Small Business/Self-Employed, Tax Exempt and Government Entities, Wage and Investment, and the Chief, Appeals) should require that assessment statute extension cover letters confirming advice of rights be attached to statute extension forms when the extension is approved. The cover letter would then be filed, together with the extension form, directly behind the return to make it easy to locate in the case file.

ASSESSMENT OF CAUSE: In some situations we found it difficult to determine from the case file whether we properly advised taxpayers of their rights when we asked them to execute an extension of the statute of limitation on assessment of additional tax and penalties.

CORRECTIVE ACTION: The IRS will:

- Issue a memorandum to advise the Area Managers and Headquarters staff of all Operating Divisions the requirement of attaching the statute extension cover letters (L-907 or L-967 for Appeals) to the executed extension form, with instructions to provide this information to all field personnel as quickly as possible
- Post the memorandum on all the Web sites for all Operating Divisions for immediate availability
- Revise current IRMs and instruction training material to show adopted changes

IMPLEMENTATION DATE: January 1, 2002

RESPONSIBLE OFFICIAL(S): Commissioner, LMSB
 Commissioner, SBSE
 Commissioner, TEGE
 Commissioner, W&I
 Chief, Appeals

CORRECTIVE ACTION MONITORING PLAN: The appropriate staff will advise the respective Commissioner of any delay, change or problem with implementation.

If you wish to discuss our response to your draft report, please call Joseph G. Kehoe, Commissioner, Small Business/Self-Employed Division, at (202) 283-0600.